Office of the Secretary
Service Date
August 4, 2008

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING ORDER AUTHORIZING THE INCLUSION OF POWER SUPPLY EXPENSES ASSOCIATED WITH THE PURCHASE OF CAPACITY AND ENERGY FROM PPL ENERGYPLUS, LLC IN THE POWER COST ADJUSTMENT	)	**CASE NO. IPC-E-08-13** **ORDER NO. 30613**

On June 16, 2008, Idaho Power Company (Idaho Power; Company) filed an Application with the Commission for an Order approving a firm wholesale Power Purchase Agreement (Agreement) between Idaho Power and PPL EnergyPlus, LLC (EnergyPlus). The Company requests accounting treatment that will allow Idaho Power to include the expenses associated with the purchase of capacity and energy from EnergyPlus in the Company's Power Cost Adjustment (PCA). Included in the Company's filing in this case is the prefiled direct testimony of Karl Bokenkamp, General Manager of Power Supply Operations. The Commission in this Order approves the Company's Application.

The EnergyPlus Agreement replaces an Idaho Power/PPL Montana contract that will expire at the end of August 2009. Reference Order No. 29286, Case No. IPC-E-03-08. In the spring of 2008, the Company issued a Request for Proposals (RFP) to replace the expiring contract. EnergyPlus was the successful bidder. EnergyPlus is the marketing arm of PPL Montana. As a result, it has access to the generating resources owned and operated by PPL Montana.

Contracting with EnergyPlus is advantageous, the Company contends, because existing constraints on the west side of Idaho Power's system made power purchases on the east side of the Company's system preferable. The principal provisions of the Power Purchase Agreement with EnergyPlus call for a firm power purchase for the heavy load hours, six days a week (Monday through Saturday), 16 hours a day (6 x 16) in the months of June, July and August (except for NERC holidays). These are the time periods identified in the Company's 2006 IRP as critical peak hours. The term of the Agreement is two years, June 1 through August 31 of each year beginning in 2010 and ending in 2011. The quantity of energy purchased is 83 MW per hour. The price to be paid for this energy is $92.25 per MWh. After adjusting for losses, Idaho Power will actually receive approximately 80 MW per hour under the PPA.

The Company contends that the energy costs of \$92.25/MWh are competitive and favorable when compared to alternative resource options. The Company's heavy load forward price curves for Mid-Columbia (Mid-C) are slightly above the PPA contract price. The limited duration of the PPA reduces the risk by dovetailing with the Company's ongoing efforts to develop energy efficiency programs that target the Company's summer peak loads and with the Company's planned acquisition of new base load resources in 2012 through its current request for proposals. Cost comparisons are detailed in the Company's prefiled testimony. To give the Commission an idea of current market prices, in accordance with the Company's risk management policy, Idaho Power states it has already purchased heavy load energy for August 2008 at prices between \$110 and \$120 per MWh.

As consideration for EnergyPlus's agreement to hold the price in the PPA firm to allow time for Commission review and approval, Idaho Power has paid EnergyPlus a deposit in the amount of \$100,000 that is refundable if the Application is approved by the Commission no later than August 4, 2008. If the Commission does not approve the Agreement by that deadline, the Company will forfeit the deposit and either party may terminate the Agreement.

In addition to power costs under the Agreement, Idaho Power states it will purchase firm monthly transmission service across Northwestern Energy's transmission system to the Jefferson point of delivery. At current rates under Northwestern Energy's open access transmission tariff (OATT), the maximum charge for monthly firm transmission service is \$3.42 per kW of reserved capacity per month. Losses are charged at four percent. After consideration of losses and transmission costs, Idaho Power will incur a total cost of approximately \$101 per MWh under the PPA.

Idaho Power proposes that costs associated with acquiring firm monthly transmission service from Northwestern Energy's transmission system be booked in Book Account 565 Transmission of Electricity by Others. These monthly transmission costs will not flow through the Company's Power Cost Adjustment (PCA). Idaho Power proposes that the cost for power acquired through the EnergyPlus Agreement be booked in FERC Account 555, Purchased Power, and that the costs upon contract approval flow through the Company's PCA. Until the costs of the contract are included in a general revenue proceeding, any contract costs associated with the Agreement will be considered deviation from the base and, therefore, only 90% of the Idaho jurisdictional costs will be borne by customers.

Idaho Power requests that the Commission issue an Order approving the Power Purchase Agreement between Idaho Power and EnergyPlus and approving Idaho Power's requested accounting treatment for inclusion of the power purchase expenses associated with the EnergyPlus Agreement in the Company's Power Cost Adjustment.

On June 25, 2008, the Commission issued Notices of Application and Modified Procedure in Case No. IPC-E-08-13. The deadline for filing written comments was July 24, 2008. Following the Commission's Notice, the Industrial Customers of Idaho Power (ICIP; Industrial Customers) petitioned to intervene and was granted intervention in Commission Order No. 30594. The Industrial Customers, the Snake River Alliance (Alliance) and Commission Staff were the only parties to file comments. Staff recommends approval of the Company's Application. The Industrial Customers and Alliance do not oppose the Application. Comments of the parties can be summarized as follows:

Commission Staff

The PPL EnergyPlus contract replaces a similar existing contract with PPL Montana for an identical amount of capacity and energy. After a review of the Company's 2006 Integrated Resource Plan (IRP), Staff concludes that if the Agreement is not approved, Idaho Power will have to seek an additional 83 MW to meet planned loads during the summers of 2010 and 2011.

Based on forward prices, it appears to Staff that the PPL EnergyPlus contract price is attractive for the August months, but a bit high for the months of June and July. Staff compares the contract prices with other options to determine reasonableness including (1) new gas-fired generation; (2) demand-side management (DSM) peak reduction; and (3) PURPA avoided-cost rates.

Gas-Fired Generation

To satisfy the 83 MW deficit with gas-fired generation, Idaho Power would have to add additional generation capacity. Staff believes that new gas-fired generation would be more costly than the PPL EnergyPlus Agreement.

DSM Peak Reduction

Idaho Power, Staff contends, has already incorporated forecasted peak-hour reductions from its existing A/C Cool Credit and Irrigation Peak Rewards programs and its other energy efficiency programs into its IRP. While additional peak load reductions could be realized in the

Irrigation Peaks Reward program due to future implementation of a dispatchable option, the details of such an option have yet to be worked out and Staff contends cannot be relied on to displace the need for the PPL EnergyPlus contract.

PURPA Avoided Cost Rates

The current avoided cost rates for summer heavy load hour PURPA purchases for 2010 and 2011 are shown below in dollars per MWh.

	June	July/August
2010	\$48.16/MWh	\$78.63/MWh
2011	\$46.34/MWh	\$75.65/MWh

Clearly, the \$92.25/MWh rate in the PPL EnergyPlus Agreement, Staff states, far exceeds the current PURPA avoided cost rates. These PURPA rates, however, Staff notes assume natural gas prices of \$6.54/MMBtu and \$6.10/MMBtu, respectively, in 2010 and 2011. Gas prices are based on the forecasts of the Northwest Power and Conservation Council (NWPCC). Staff expects the Council to update its natural gas price forecast later this year.

Furthermore, Staff notes that pursuant to Commission directive in Case No. IPC-E-07-15 (Order No. 30480) generic variable assumptions used in avoided-cost calculations are currently being reviewed. Staff believes that increased equipment and construction costs will likely result in variable changes that will, in turn, cause an increase in .avoided-cost rates.

Recomputation of avoided-cost rates using what Staff believes to be reasonable generic variable assumptions and current gas forward prices for 2010 and 2011 (currently \$10.20/MMBtu and \$9.80/MMBtu, respectively) produces rates for 2010 and 2011 of approximately \$71/MWh for June and \$115/MWh for July and August. Based on these avoided-cost rates, Staff contends that the \$92.25/MWh price in the PPL EnergyPlus Agreement seems reasonable.

Timing/Term of Agreement

Idaho Power is electing to execute a contract now, two years in advance of when the new contract will begin. Staff believes it is impossible to judge whether it is better to sign the contract now or wait until later hoping prices will go down. Staff believes the Company's decision is not unreasonable. Given the high price of the Power Purchase Agreement, however, Staff believes that it was wise for the Company to limit the duration of the Agreement to only the length of time that the Company can be reasonably certain that the power will be needed. A short two-year agreement, Staff contends, provides flexibility at a time when prices are uncertain.

Accounting Treatment

Staff agrees with the Company's proposed accounting treatment.

Deposit Forfeiture Terms

Staff is critical of the deposit forfeiture terms and does not believe that customers should bear the risk of rejection of the Agreement by the Commission or the timing of the Commission's Order.

Staff believes that the PPL EnergyPlus contract is needed by Idaho Power to meet its summertime peak loads, and that there are few, if any, other alternatives for satisfying these loads that are as certain or less expensive. Staff recommends that the Commission issue an Order approving the Power Purchase Agreement between Idaho Power and EnergyPlus and approving Idaho Power's requested accounting treatment for inclusion of the power purchase expenses associated with the EnergyPlus Agreement in the Company's Power Cost Adjustment.

Industrial Customers of Idaho Power

The Industrial Customers do not oppose the Company's Application but respectfully request that if the Commission approves rate recovery for the costs associated with the PPL Agreement, that it apply the natural gas forecast used to justify that approval for all of the Company's other processes that make use of natural gas forecasts, including the setting of avoided-cost rates and the calculation of cost-effective DSM measures.

Snake River Alliance (Alliance)

The Alliance questions whether additional efforts must be marshaled to promote energy conservation and efficiency measures to reduce the Company's summer peak. To properly incentivize Idaho Power, the Alliance suggests one option might be to allow 90% of the requested purchase amount in the first year of the Agreement, followed by 80% in the second, etc., and require the Company to make up the difference through energy efficiency and conservation measures beyond those the Company has already implemented.

The Alliance also contends that it may be appropriate to review how the Commission and regulated utilities define "cost-effective" energy efficient measures. Redefinition, it states, might make it easier to devote more utility DSM funds to efforts that are not currently considered cost effective but in fact are cost effective in the long run and might also reduce the need for expensive market purchase contracts such as this one.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. IPC-E-08-13 including the underlying Agreement and the comments of ICIP, the Alliance, and Commission Staff. Based on our review of same, we continue to find it reasonable to process the Company's Application pursuant to Modified Procedure. IDAPA 31.01.01.204.

The Company seeks to replace an existing capacity and energy purchase contract that will expire in 2009 with a similar contract for the years 2010 and 2011, albeit at a much higher price. The Agreement provides the Company with 83 MW of firm power for heavy load hours in the summer months. The purchase need is supported by the Company's 2006 IRP supply resource and load projections for 2010 and 2011. We find it reasonable to conclude that without the purchase the Company will not have sufficient resources to meet its summer peak load requirements for those years.

We are also persuaded that in light of existing circumstances, the Agreement price is fair and reasonable and that good reason exists to limit the contract term to two years. We find the proposed purchase to be in the best interests of both the Company and its customers. We also find it reasonable to authorize inclusion of the power purchase expenses associated with the Agreement in the Company's PCA, an accounting practice that we approved for the existing contract with PPL Montana LLC. Case No. IPC-E-03-08, Order No. 29286. The Commission accordingly finds it reasonable to approve the Idaho Power/EnergyPlus Agreement and the Company's proposed method of recovery.

The Commission appreciates the comments filed by ICIP and the Alliance and acknowledges the recommendations of each. We encourage the parties to raise their issues in what we believe to be more appropriate forums for consideration, i.e., avoided-cost methodology and Integrated Resource Planning workshops and proceedings.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, an electric utility, pursuant to the authority and power granted it under Title 61 of the Idaho Code and the Commission's Rules of Practice, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby approve the Power Purchase Agreement (PCA) between Idaho Power and PPL EnergyPlus, LLC. Reference Application Attachment 1.

IT IS FURTHER ORDERED and the Commission does hereby approve Idaho Power's requested accounting treatment for inclusion of the power purchase expenses associated with the PPL EnergyPlus Agreement in the Company's Power Cost Adjustment mechanism.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 4th day of August 2008.

MACK A. REDFORD, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

JIM D. KEMPTON, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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